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GOP wants to revamp Mich. business tax

Senate lawmakers say they get complaints that levy is excessive, hard to understand.

Mark Hornbeck / Detroit News Lansing Bureau

LANSING -- Senate Republicans intend to launch an offensive today on Michigan's 9-month-old business tax in reaction to some taxpayers who say the new levy is exorbitant, complicated and driving them out of the state -- or out of business.

The Senate is expected to pass as soon as today a bill to accelerate the phase-out of a 22-percent surcharge to three years, rather than 10. The surcharge, which treasury officials say will take in \$722 million this year, was enacted as an add-on to the new Michigan Business Tax last year, to help wipe out the state budget deficit.

Republican leaders also want to cap the state's new film tax credit and make the overall business tax more fair and balanced by removing from the calculation of gross receipts sales tax collections and fees assessed by other states. To include these items in the tax base amounts to double taxation, critics charge.

They're pushing ahead with the changes even though state Treasurer Bob Kleine says the tax is working about as expected and most businesses are getting a tax cut under the Michigan Business Tax, which in January replaced the reviled Single Business Tax.

Senate Finance Committee Chair Nancy Cassis, R-Novi, contends the new tax is bringing in more revenue than advertised and is hurting Michigan's economy at the worst possible time.

"What we have with this new tax is a plan to sink Michigan to the bottom," Cassis said. "We're talking about systemic reforms that put Michigan businesses back in position to create jobs."

Should the fixes not win approval in the legislature and be signed by Gov. Jennifer Granholm, Cassis said there likely will be a proposal on the statewide ballot in two years.

Kleine reports the state is about six months from knowing all the details of how the tax is working and how much money it is generating for the state. But he said it appears from the first two quarterly payments that the treasury will take in about \$1.8 billion from the tax for this year's budget, about the amount anticipated.

"We won't know for sure until we get annual returns in April, but based on the information we have it's pretty much doing what we thought it would be doing," Kleine said.

Treasury officials acknowledge that the MBT will bring in more money over a full year than the tax it replaced, because it needs to generate the \$1.72 billion yielded by the Single Business Tax as well as \$486 million in tax breaks that will take effect this year on business machinery and equipment in addition to the \$722 million surcharge.

They report one of every two Michigan businesses will see a business tax cut of 50 percent or greater; about one in every five will see a tax hike of 50 percent or more. In all, 99,363 businesses will pay less, 44,761 will pay more and 13,894 will pay the same as under the old Single Business Tax.

Kleine said the domestic automakers and other large manufacturers are big winners under the revamped tax system because they'll benefit from the break on machinery and equipment. Real estate, finance and insurance businesses generally will pay much more.

"A number of middle-sized firms across the board also will pay more," he said. "About 30 percent of this tax is based on profits compared to 10 percent under the old tax, so companies with high profits and not much property will pay more."

Businesses with sales under \$350,000 don't pay the tax and those under \$20 million pay a 1.8-percent corporate tax and will owe less than they did under the old system, Kleine said.

Cassis says she's been hearing complaints from the service sector about whopping increases.

GDI Infotech Inc. of Ann Arbor, a technology consulting company, will see its tax bill spike from \$4,000 to \$45,000, said George Levy, chief financial officer.

"The tax rate is high and there are all these credits, but they're only usable by capital-intensive companies," Levy said. "Knowledge-based companies like ours get no credits and some are being chased out of state."

He said GDI hopes to qualify for an economic development credit that would lower tax liability if it hires at least 120 people in Michigan over seven years.

Mike Johnston, chief lobbyist for the Michigan Manufacturers' Association, said most of his members "say the new tax system is working pretty well. Addressing the personal property tax (on equipment and machinery) was a big success for us. When we hear about the need for a fix, it's partly because of the ambiguity of the new tax. There needs to be more clarification."

Critics say the new tax is even more complicated than the cumbersome SBT. There are 26 new forms to fill out and three new instruction booklets. Many taxpayers say they're having a hard time getting answers about how the tax is applied.

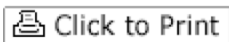
Treasury officials say no business has to complete all of the new forms. And they say much information is provided on the MBT web site.

Tricia Kinley, tax policy expert for the Michigan Chamber of Commerce, said chamber officials are hearing constantly from businesses.

"We're hearing not just about dollar amounts, but about how treasury is interpreting the law," she said. "It's causing outrage and consternation in the business community."

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